

**Linwood Metropolitan District**  
Linwood, Michigan

**Audited Financial Statements**  
July 31, 2006

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Linwood Metropolitan District	County Bay
Fiscal Year End July 31, 2006	Opinion Date December 11, 2006	Date Audit Report Submitted to State January 31, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES NO Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	There were no items to report.	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Quast, Janke and Company CPA's PC		Telephone Number 989-892-4549	
Street Address 1010 N Johnson		City Bay City	State MI
Authorizing CPA Signature 		Printed Name Ned E Kleinke CPA	License Number 16193

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# ***Quast, Janke and Company, P.C.***

*Certified Public Accountants*

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*Members:*  
*American Institute of C.P.A.'s*  
*Michigan Association of C.P.A.'s*

## **INDEPENDENT AUDITOR'S REPORT**

December 11th, 2006

Board of Commissioners  
Linwood Metropolitan District  
Linwood, Michigan 48634

We have audited the accompanying financial statements of the Linwood Metropolitan District as of and for the year ended July 31, 2006, as listed in the table of contents. These financial statements are the responsibility of Linwood Metropolitan District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Linwood Metropolitan District, as of July 31, 2006, and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

Sincerely,

QUAST, JANKE AND COMPANY

  
Certified Public Accountants, P.C.

**LINWOOD METROPOLITAN DISTRICT**Linwood, Michigan

EXHIBIT 1

**BALANCE SHEET**July 31, 2006

	<b>Proprietary Fund Type</b>
	<u>Enterprise</u>
<b><u>ASSETS</u></b>	
Cash in Bank	\$ 160,438
Certificates of Deposit	91,669
Accounts Receivable	17,541
Inventory - parts	9,984
Filtration Plant	995,962
Water Tower Project	1,140,635
Water System	253,151
Furniture and Equipment	16,875
Accumulated Depreciation	(617,694)
Amount to be Provided for Retirement of Debt	<u>1,470,000</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>3,538,562</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities:	
Bonds Payable	1,470,000
Retained Earnings	<u>2,068,562</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>3,538,562</u></b>

The accompanying notes are an integral part of the financial statements.

**LINWOOD METROPOLITAN DISTRICT**Linwood, Michigan

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES**For the Year Ended July 31, 2006

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 238,770
Taxes	95,488
Miscellaneous	716
	<u>334,974</u>
<b>OPERATING EXPENSES:</b>	
Salaries, taxes	37,457
Maintenance	107,441
Insurance	8,667
Water tests	4,389
Water purchases	20,710
Office expenses	9,625
Utilities, Phone	14,602
Depreciation	62,859
Miscellaneous	0
Total operating expenses	<u>265,750</u>
Operating income	69,224
<b>NON OPERATING REVENUES (EXPENSES):</b>	
Interest income	(2,498)
Debt service - interest	78,811
Debt service - principal	45,000
	<u>121,313</u>
Total Non Operating Revenues (Expenses)	<u>121,313</u>
Net Loss Before Other Sources	(52,089)
Retained Earnings - August 1, 2005	<u>2,120,651</u>
Retained Earnings - July 31, 2006	\$ <u><u>2,068,562</u></u>

The accompanying notes are an integral part of the financial statements.

**LINWOOD METROPOLITAN DISTRICT**Linwood, Michigan

EXHIBIT 3

**STATEMENT OF CASH FLOWS - ENTERPRISE FUND**For the Year Ended July 31, 2006**Increase (Decrease) in Cash and Cash Equivalents****Reconciliation of operating income to net  
cash provided (used) for operating activities:**

Operating income	\$ 69,224
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	62,859
Changes in assets and Liabilities:	
(Increase) Decrease in accounts receivable	(7,749)
(Increase) Decrease in inventory	<u>(111)</u>
Net Cash Provided by Operating Activities	124,223

**Cash Flows from Financing Activities:**

Payments on bonds - interest and principal	(123,811)
Interest income	<u>2,498</u>
Net cash Used by Financing Activities	(121,313)

**Cash Flows from Investment Activities**

Purchase of fixed assets	<u>(5,439)</u>
Net (increase) in cash	(2,529)

**Cash and Cash Equivalents - August 1, 2005**254,636**Cash and Cash Equivalents - July 31, 2006**\$ 252,107

The accompanying notes are an integral part of the financial statements.

**LINWOOD METROPOLITAN DISTRICT**

Linwood, Michigan

EXHIBIT 4

**ENTERPRISE FUND  
DETAIL OF BONDED DEBT  
For the Year Ended July 31, 2006**

Linwood Metropolitan District  
1998 Water Revenue Refunding Bonds  
Date: July 1, 1998  
TOTAL ISSUE: \$710,000

DUE DATE	PRINCIPAL AMOUNT	INTEREST RATE	BONDS PRIOR YEARS	REDEEMED CURRENT YEAR	CURRENT YEAR INTEREST	(MEMO) REMAINING INTEREST OBLIGATION
Dec. 1, 1999	0	4.95	-	-	39,448.85	536,802.50
2000	0	4.95	-	-	36,137.50	503,190.00
2001	0	4.95	-	-	39,018.85	469,577.50
2002	0	4.95	-	-	36,137.50	435,965.00
2003	0	4.95	-	-	36,137.50	402,352.50
2004	0	4.95	-	-	36,137.50	368,740.00
2005	20,000	4.95	-	20,000	35,145.00	335,127.50
2006	20,000	5.00	-	20,000	35,642.50	302,505.00
2007	25,000	5.00				270,882.50
2008	30,000	5.05				240,510.00
2009	35,000	5.05				211,652.50
2010	40,000	5.05				184,562.50
2011	45,000	5.05				159,492.50
2012	50,000	5.05				136,695.00
2013	30,000	5.05				113,897.50
2014	35,000	5.05				92,615.00
2015	40,000	5.05				73,100.00
2016	40,000	5.10				55,605.00
2017	45,000	5.10				40,150.00
2018	50,000	5.10				26,990.00
2019	50,000	5.10				16,380.00
2020	50,000	5.20				8,320.00
2021	50,000	5.20				2,860.00
2022	55,000	5.20				0.00
	<u>\$ 710,000</u>					

The accompanying notes are an integral part of the financial statements.



**LINWOOD METROPOLITAN DISTRICT**

Linwood, Michigan

EXHIBIT 5

**ENTERPRISE FUND**

**DETAIL OF BONDED DEBT**

For the Year Ended July 31, 2006

Linwood Metropolitan District  
1998 Water Revenue Bonds  
Date: August 1, 1998  
TOTAL ISSUE: \$995,000

DUE DATE	PRINCIPAL AMOUNT	INTEREST RATE	BONDS PRIOR YEARS	REDEEMED CURRENT YEAR	CURRENT YEAR INTEREST	(MEMO) REMAINING INTEREST OBLIGATION
Dec. 1, 1999	25,000	3.95	-	25,000	49,516.25	780,942.50
2000	30,000	4.15	-	30,000	51,577.60	730,932.50
2001	30,000	4.25	-	30,000	47,140.00	681,910.00
2002	30,000	4.35	-	30,000	40,885.00	634,132.50
2003	35,000	4.40	-	35,000	46,661.97	587,630.00
2004	35,000	4.45	-	35,000	45,580.71	542,432.50
2005	25,000	4.55	-	25,000	43,665.70	498,775.00
2006	25,000	4.60	-	25,000	43,168.20	456,675.00
2007	25,000	4.65				415,712.50
2008	25,000	4.70				375,900.00
2009	25,000	4.80				337,250.00
2010	25,000	4.90				299,775.00
2011	25,000	5.00				263,500.00
2012	25,000	5.10				228,450.00
2013	50,000	5.15				194,650.00
2014	50,000	5.20				162,125.00
2015	50,000	5.25				132,175.00
2016	55,000	5.30				104,825.00
2017	60,000	5.35				80,100.00
2018	60,000	5.35				58,290.00
2019	65,000	5.40				39,690.00
2020	70,000	5.40				24,300.00
2021	70,000	5.40				12,420.00
2022	80,000	5.40				4,320.00
	<u>\$ 995,000</u>					

The accompanying notes are an integral part of the financial statements.

# **LINWOOD METROPOLITAN DISTRICT**

Linwood, Michigan

## **NOTES TO THE FINANCIAL STATEMENTS**

July 31, 2006

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### **Reporting Entity -**

The District is located in Bay County and operates under a board of commissioners elected at large providing water services to the residents in Fraser and Kawkawlin townships. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB 34 requirements have not been adopted. It is the belief that the presentation of the financial statements in accordance with this statement would not produce a materially different result. The more significant of the government's accounting policies are described below.

#### **Component Unit -**

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB No. 14. The basic - but not the only - criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of the ability is financial dependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships regardless of whether the District is able to exercise oversight responsibilities.

#### **Basis of Presentation -**

The financial activities of the District are recorded in one fund :

**Enterprise Fund** - The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**LINWOOD METROPOLITAN DISTRICT**

Linwood, Michigan

**NOTES TO THE FINANCIAL STATEMENTS**

July 31, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of Accounting -**

The accrual basis of accounting is used by the Proprietary Fund. Water and sewer service charges are recognized as earned.

**Budgets -**

**Budget Preparation:**

The budget is adopted on the basis consistent with the accounting principles used in the preparation of the financial statements. The budgets are adopted at the activity level.

**Property and Equipment -**

Property and equipment are stated at cost. Part of the cost each year is recovered through depreciation deductions. Depreciation is recorded using the straight-line method over the estimated useful life of the asset. The estimated useful lives of the assets are as follows :

Buildings and Water System	25 - 40 years
Equipment	10 years

**Inventory -**

Inventory of parts and supplies is stated at the lower of cost, determined by the first-in, first-out method, or market.

**Income Taxes -**

As a Michigan municipality the District is exempt from all Federal and State income taxes.

**LINWOOD METROPOLITAN DISTRICT**

Linwood, Michigan

**NOTES TO THE FINANCIAL STATEMENTS**

July 31, 2006

**NOTE 2 - CASH:**

Act 217, PA 1982, authorizes the District to deposit and invest in the accounts of Federally insured banks credit unions, and savings and loan associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States Government or Federal agency obligation repurchase agreements; banker's acceptances of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any fund; and mutual funds composed of investment vehicles which are legal tender for direct investment by local units of government in Michigan.

Deposits - The District's deposits are contained in three different checking accounts.

At July 31, 2005 the carrying amount and bank balance of the District's deposits were \$160,438.

Certificates of Deposit -

The District has deposited with its financial institution four certificates of deposit. These amounts are considered to be cash equivalents for reporting purposes and for the Statement of Cash Flows of the Enterprise Fund. The total amount of cash in certificates was \$91,669.

**Note 3 - Liabilities :**

Bonds Payable -

Bonds payable consist of two issues. The first issue is water revenue refunding bonds issued July 1, 1998, to replace the original issue dated July 1, 1995. Principal payments are detailed in Exhibit 4. The interest rate payable on the debt ranges from 4.95% to 5.20% with payment dates of June 1<sup>st</sup> and December 1<sup>st</sup>.

The second issue is dated August 5<sup>th</sup>, 1998, and is water revenue bonds. The bonds were issued to defray the cost of Phase II of the water project which involved the construction of a new microfiltration plant. Principal payments are as detailed in Exhibit 5. The interest rate payable on the bonds ranges from 3.95% to 5.40% with payments due June 1<sup>st</sup> and December 1<sup>st</sup>.

**NOTE 4 - BOND REDEMPTION ACCOUNTS:**

The District has established two accounts, one an interest bearing checking, the other a Certificate of Deposit, as a reserve for redemption and interest payments on the two bond issues. As of July 31, 2006 the District has set aside \$214,208 in these accounts. This amount is in satisfaction of the bond reserve requirements.